

Message Text

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ACTION XMB-07

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TO SECSTATE WASHDC PRIORITY 7024

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FOR EXIM BANK AND COMMERCE

E. O. 11652: N/A

TAGS: BGEN, BFOL, ETRN, EFIN, KS

SUBJECT: PRELIMINARY COMMITMENT: KOREA SHIPBUILDING AND
ENGINEERING CORPORATION.

SUMMARY:

QUICK ACTION, WITH MAXIMUM FLEXIBILITY, MAY BE NECESSARY TO KEEP PROPOSED \$131 MILLION SHIPYARD PROJECT AVAILABLE AS EXPORT OPPORTUNITY FOR U. S. SUPPLIERS. COMPANY REGARDS FINANCING PACKAGE SUGGESTED BY U. K. BANKS AS PREFERABLE TO MORGAN GUARANTY LOAN OFFER WHICH STILL CONTINGENT ON ISSUANCE OF EXIM BANK PRELIMINARY COMMITMENT. ALTHOUGH STILL AWAITING RESPONSE TO MARCH 21 TELEX TO MORGAN GUARANTY, FIRM WISHES TO MAKE EARLY DECISION IN ORDER TAKE ADVANTAGE CURRENT SELLERS' MARKET IN SHIPBUILDING, OBTAIN VESSEL ORDERS AND COMMENCE YARD CONSTRUCTION. COMMERCE AND/ OR EXIM BANK MAY WISH CONTACT MORGAN GUARANTY TO DISCUSS HOW LOAN ACTION COULD BE EXPEDITED. EMBASSY ASSUMES EXIM BANK WILL GIVE EARLY CONSIDERATION TO \$72 MILLION PRELIMINARY COMMITMENT APPLICATION. U. S. PARTICIPATION AT THIS STAGE MAY BE HELPFUL TOWARD FUTURE SALES OF VESSEL COMPONENTS.

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1. IN DISCUSSION WITH COMMERCIAL COUNSELOR WHICH LATTER REQUESTED AS FOLLOW UP TO EXIM BANK PRESIDENT KEARN' S VISIT, KOREA SHIPBUILDING AND ENGINEERING PRESIDENT RYUN NAMKOONG OUTLINED CURRENT STATUS COMPANY' S EFFORTS TO OBTAIN FINANCING FOR PROPOSED SHIPYARD ON KOJE ISLAND. NAMKOONG OUTLINED CURRENT STATUS COMPANY' S EFFORTS TO OBTAIN FINANCING FOR PROPOSED SHIPYARD ON KOJE ISLAND. NAMKOONG SAID THAT TOTAL COST OF PROJECT WOULD BE APPROXIMATELY \$131 MILLION. SITE PREPARATION, DREDGING, ACCESS ROAD BUILDING, POWER AND WATER SUPPLY WOULD REQUIRE LOCAL CURRENCY EQUIVALENT OF \$20 MILLION WHICH COMPANY IS PREPARED TO FINANCE. FOREIGN LOAN REQUIREMENT IS FOR \$111 MILLION OF WHICH BETWEEN \$70 TO 80 MILLION REQUIRED FOR IMPORTED EQUIPMENT AND THE REMAINDER FOR LOCAL COSTS FOR YARD DOCKS, BUILDINGS AND CONSTRUCTION. BRITISH BANKERS VISITED BY NAMKOONG AFTER HIS FEB/ MARCH TRIP TO U. S. OFFERED \$71 MILLION LOAN BACKED BY UK EXPORT CREDIT GUARANTEE SYSTEM AND \$40 MILLION FROM EURO DOLLAR MARKET. GUARANTEED PORTION WOULD BEAR INTEREST RATE OF SIX PERCENT WITH TWELVE YEAR MATURITY. HIGHER EURO DOLLAR RATE WOULD APPLY TO THE EURO DOLLAR PORTION. U. K. SOURCE PROCUREMENTS WOULD BE REQUIRED FOR 70 PERCENT OF LOAN UNDER EXPORT CREDIT GUARANTEE WITH REMAINING THIRTY PERCENT FROM OTHER EC COUNTRIES (OR PERHAPS ANY SOURCE). NO SOURCE RESTRICTIONS ON \$40 MILLION EURO DOLLAR PORTION. COMPANY WISHES TO BEGIN CONSTRUCTION BY EARLY JUNE 73. NAMKOONG SAID HE PREFERS BRITISH LOAN EVEN AT HIGHER RATE THAN U. S. BECAUSE IT CAN BE CONCLUDED MORE QUICKLY WITH LESS RED TAPE AND DETAILED BANK SUPERVISION THAN U. S. LOAN. ALSO BRITISH SHIPBUILDING EXPERIENCE, TECHNOLOGY, AND PRESENCE IN TWO OTHER SHIPYARD VENTURES IN KOREA WOULD ENABLE QUICKER DESIGN, PROCUREMENT AND COMPLETION OF KSEC' S NEW YARD.

2. NAMKOONG HAD DISCUSSED PROJECT WITH MORGAN QUARANTY ON/ OR ABOUT FEBRUARY 12 AND WAS PLEASED BY THAT BANK' S QUICK OFFER OF LOAN. HOWEVER, DELAY IN PROCESSING AND EXISTENCE OF EXIMBANK RESTRICTIONS RELATIVE TO NON- INCLUSION OF FREIGHT COSTS AND U. S. FLAG PREFERENCE ARE BOTHERSOME. ALSO, COMPANY FEELS THAT IT MAY NOT BE POSSIBLE PROCURE ALL COMPONENT NEEDS FROM THE U. S. ALTHOUGH RECENT USG EFFORTS TO STIMULATE SHIPBUILDING AND INTERNATIONAL MONETARY REALIGNMENT MAY HAVE CHANGE THIS PICTURE. NAMKOONG SAID THAT OPPORTUNITY FOR SHIP' S EQUIPMENT AND COMPONENTS WILL ACTUALLY BE MUCH LARGER THAN FOR SHIPYARD MACHINERY AND HE HOPES GET ORDERS FROM U. S. SHIPOWNERS. HE POINTED OUT IN THIS CONNECTION THAT " THE EGG WILL BE BIGGER THAN THE CHICKEN". HE ALSO SAID THAT FINANCE MINISTER HAD SUGGESTED THAT COMPANY RELY LIMITED OFFICIAL USE

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UPON EXIM BANK FINANCING FOR PROJECT AS PROCUREMENT OF U. S. MACHINERY WOULD HELP RECTIFY U. S. COMMERCIAL TRADE IMBALANCE WITH KOREA AND PERHAPS RELIEVE U. S. PROTECTIONIST MOVES SOMEWHAT VIS- A- VIS KOREAN GOODS.

3. COMMENT: WHILE NAMKOONG MAY BE ATTEMPTING PLAY OFF U. S. AND BRITISH OFFERS AGAINST EACH OTHER EMBASSY BELIEVES THAT SIZE OF PROJECT WHICH ALREADY APPROVED BY ROKG WARRANTS SPECIAL TREATMENT, DESPITE FACT THIS NOT ONE OF COMMERCE' S CURRENT TARGET EXPORT INDUSTRIES. COMMERCE AND EXIM BANK MAY WISH TO DISCUSS WITH MR. R. J. WYNN OR MR. H. L. BAILEY AT MORGAN GUARANTY, NEW YORK, WAYS AND MEANS OF QUICKLY FINALIZING COMPLETE LOAN PACKAGE THAT WOULD BE COMPETITIVE WITH EUROPEAN OFFER. WE ASSUME THAT EXIM BANK WILL GIVE EARLY CONSIDERATION TO PRELIMINARY COMMITMENTS APPLICATION. POST EXPECTS COMPLETE BY MARCH 29 WTDR ON KSEC REQUESTED BY EXIM BANK.

5. WOULD APPRECIATE BEING ADVISED OF ACTION TAKEN.
HABIGS

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*** Current Classification *** LIMITED OFFICIAL USE

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